



The Tennessee Small Business Investment Company Credit Act Overview

The Tennessee Small Business Investment Company Credit Act (the “Act”) was signed into law on July 9, 2009 as Public Chapter 610. The Act offers \$120 million in gross premiums tax credits to insurance companies that invest in companies certified by the State of Tennessee as “TNInvestcos.” A total of six TNInvestcos will be authorized to invest funds in qualifying Tennessee small and start-up businesses. Qualified investments by TNInvestcos can take the form of debt, equity, or a hybrid of the two.

The \$120 million in tax credits will be allocated among the six TNInvestcos, each of which must apply for an allocation of tax credits. Utilizing standardized criteria, Tennessee Department of Economic and Community Development (“ECD”) and the Tennessee Department of Revenue, in conjunction with the Tennessee Technology Development Corporation, will award the credits to eligible companies in \$20 million credit allocations no later than December 31, 2009. No more than two credit allocations may be issued to a single TNInvestco.

TNInvestcos

Qualification as a TNInvestco will depend on the following criteria:

- The entity must be a for-profit or nonprofit partnership, corporation, trust, or limited liability company.
- The entity must have equity capitalization of at least \$500,000 in the form of unencumbered cash, marketable securities, or other liquid assets.
- The entity must have at least two investment managers with at least five years of investment experience.
- The entity must have been based, as defined by having a principal office, in Tennessee for at least five years or have at least five years of experience in investing primarily in Tennessee domiciled companies.
- The entity must have a demonstrated ability to lead investment rounds, advise and mentor entrepreneurs, and facilitate follow-on investments.

Application deadlines for qualification as a TNInvestco:

- Interested parties must apply to ECD for certification as a TNInvestco no later than the close of business on **October 1, 2009**. A nonrefundable application fee of \$7,500 must be submitted at the time of application. Checks should be made payable to the State of Tennessee. Please note on the check it is for TNInvestco.
- Irrevocable commitments equal to the requested tax credit allocation must be submitted to ECD from participating insurance companies and investors no later than **November 30, 2009**.

Additional details regarding the tax credit:

- A participating insurance company will earn investment tax credits against its gross premiums tax liability equal to the total amount of investment tax credits allocated to it through its investment in TNInvestcos.
- Credits will vest on the date of investment. However, no insurance company, including its affiliates, may receive a combined total of more than 25% of the maximum amount of investment authorized under the Act, regardless of the number of investments made in TNInvestcos.
- Beginning with tax year 2012 and continuing through 2015, a participating insurance company may claim yearly credit amounts equal to 15% of the allocated tax credit.
- For tax years 2016 through 2019, a participating insurance company may claim yearly credit amounts equal to 10% of the allocated tax credit.
- In certain circumstances, a participating insurance company may transfer credits to an affiliate.
- Credit amounts exceeding the amount of a participating insurance company's gross premiums tax liability for a particular tax year may be carried forward without limitation.
- In the event that Tennessee's gross premiums tax is repealed, credits generated under the Act may be applied against any other tax imposed on insurance companies by the State of Tennessee.

Tennessee Small and Start-Up Businesses

To qualify to receive investment funds from a TNInvestco, a business must meet the following requirements:

- The business must be independently owned and operated.
- The business must be headquartered in Tennessee; its principal business operations must be located in Tennessee, and at least 60% of its employees must be located in Tennessee.
- The business must not be principally engaged in professional accounting, medical, or legal services; banking or lending; real estate development; insurance; oil and gas exploration; or direct gambling services.
- Additionally, demonstration of a high-growth potential will be an important qualification for receipt of funding.
- The business must employ no more than 100 employees.

Once a business qualifies to receive investment funds, it may continue receiving funds so long as it continues to be headquartered and principally operated in Tennessee with at least 60% of its employees located in Tennessee.

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